Statutory Issue Paper No. 19

Furniture, Fixtures and Equipment

STATUS
Finalized March 16, 1998

Original SSAP and Current Authoritative Guidance: SSAP No. 19

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The current statutory accounting guidance allows reporting entities to record furniture and equipment as assets, depreciate those assets, and nonadmit the undepreciated balance in the statutory financial statements. Alternatively, reporting entities may expense furniture and equipment when purchased. Guidance found in state statutes varies widely on the treatment of furniture, fixtures and equipment. GAAP requires purchases of furniture, fixture and equipment to be capitalized and depreciated over the expected useful lives of the assets. This issue paper establishes a framework for the accounting and reporting of furniture and equipment that is consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

SUMMARY CONCLUSION

2. Furniture, fixtures and equipment generally meet the definition of assets established in *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets* (Issue Paper No. 4). Within that definition, such items also meet the criteria defining nonadmitted assets. As such, the undepreciated portion of these assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be depreciated against net income as the estimated economic benefit expires. This conclusion is a change from current statutory guidance because an acquisition which meets the definition of an asset established in Issue Paper No. 4 may no longer be expensed. This change will promote uniformity in the accounting for furniture, fixtures and equipment.

3. In accordance with the reporting entity's capitalization policy, immaterial amounts of furniture, fixtures, and equipment, or supplies, can be expensed when purchased.

DISCUSSION

4. Issue Paper No. 4 defines an asset as *"probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events."* Issue Paper No. 4 also states that an asset not readily available to satisfy policyholder obligations *"shall be recorded as a nonadmitted asset and charged against surplus."* This is consistent with the Statement of Concepts, which states that a reporting entity's *"ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due."* Furniture, fixtures and equipment meet the definition of an asset but are not considered readily available to satisfy policyholder obligations. Therefore, it is in conformity with the above guidance to nonadmit these assets. This is also consistent with the concept of conservatism included in the Statement of Concepts.

Drafting Notes/Comments

- EDP equipment is addressed in *Issue Paper No. 16—Electronic Data Processing Equipment and Software*

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

5. The Accounting Practices and Procedures Manuals for Life and Accident and Health and for Property and Casualty Insurance Companies (Chapter 9, *Nonadmitted Assets*, in both manuals) require the nonadmission of furniture and equipment via one of two accounting methods:

   1. The reporting entity may record furniture and equipment as an asset, depreciate it through the Summary of Operations and record the change in the nonadmitted amount through Exhibit 14 for Life and Accident and Health Insurance Companies or Exhibit 2 for Property and Casualty Insurance Companies, which directly affects surplus.

   2. The reporting entity may expense furniture and equipment when purchased.

6. Guidance found in state statutes is not consistent on this issue. Some states allow the undepreciated balances of furniture and equipment over a specified cost threshold to be treated as admitted assets, in amounts up to stipulated percentages of the aggregate of all other assets. The threshold for capitalization and the percentage of admitted asset limits permitted vary widely. An example is the Texas Statutes - Insurance Laws, Texas Insurance Code, Chapter 3, *Life, Health and Accident Insurance*, subchapter A. Terms Defined; Domestic Companies, which allows furniture, fixtures and equipment, including a data processing system, used in connection with the business of an insurance company to be admitted if the total value of the property exceeds $2,000 and constitutes less than 10% of the aggregate other admitted assets of the company. Assets which do not meet the threshold for capitalization (i.e., supplies) are expensed when purchased. Other states place no capitalization threshold on furniture, fixtures and equipment but require the assets to be amortized over a period not to exceed a specified number of years. For example, Florida Administrative Code, Title 38, Chapter 38F-5, *Self-Insurers Funds*, allows all furniture, fixtures and equipment of self insurers to be admitted as long as the assets are depreciated over a five-year useful life. Some states waive both the threshold for capitalization and the useful life requirement and only place limits on the percentage of admitted assets that the undepreciated balance of furniture, fixtures and equipment may comprise. An example is the Idaho statutes, Insurance Laws, Title 41, *Insurance*, Chapter 6, *Assets and Liabilities,* which states, " All office equipment, office furniture, private passenger automobiles, deemed necessary for conduct of insurance business, the aggregate amount of which shall not at any one time exceed one percent (1%) of the other assets of the insurer."

Generally Accepted Accounting Principles

7. GAAP requires purchases of furniture, fixtures and equipment to be capitalized at their historical cost and depreciated over the expected useful life of the assets by recording a monthly charge against current income, in accordance with *Accounting Research Bulletin No. 43*, *Restatement on Revision of Accounting Research Bulletins*, Chapter 9, *Depreciation*. This treatment is consistent with the matching concept of GAAP, which requires revenues and expenses to be recognized in income over the period in which they are earned or incurred. Furniture, fixtures and equipment are reported in the balance sheet at their historical cost net of accumulated depreciation.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies, Chapter 9, *Nonadmitted Assets*
- Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies, Chapter 9, *Nonadmitted Assets*
- *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets*

Generally Accepted Accounting Principles

- *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins, Chapter 9, Depreciation*

State Regulations

- Texas Statutes - Insurance Laws, Texas Insurance Code, Chapter 3, *Life, Health and Accident Insurance*, subchapter A. Terms Defined; Domestic Companies
- Texas Administrative Code, Title 28, Part I, Chapter 7, *Corporate and Financial*
- Florida Administrative Code, Title 38, Chapter 38F-5, *Self-Insurers Funds*
- Idaho Statutes, Insurance Laws, Title 41, *Insurance*, Chapter 6, *Assets and Liabilities*

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